

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03

NSC-05 PA-02 PRS-01 SS-15 STR-04 /113 W

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R 031730Z AUG 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0880

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 13004

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 2)

1. FOREIGN EXCHANGE MARKET: DURING THE WEEK UNDER REVIEW, THE DOLLAR/DM FIXING RATE DROPPED BELOW DM 2.57 FOR THE FIRST TIME SINCE JUNE 24. AFTER BEGINNING THE WEEK JULY 27 AT DM 2.5757 IN A DOLLAR/DM MARKET THAT WAS CHARACTERIZED BY FOREX DEALERS AS "THIN", THE DOLLAR RECORDED ALMOST DAILY LOSSES IN FRANKFURT, DEPRECIATING BY 1.57 PERCENT AS OF THE FIXING ON AUGUST 3. NUMEROUS FACTORS ARE MENTIONED AS CONTRIBUTING TO THIS DECLINE,
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INCLUDING: THE NARROWING DIFFERENTIAL BETWEEN U.S. AND

GERMAN INTEREST RATES, PUBLICATION OF THE RELATIVELY UNFAVORABLE (COMPARED TO LAST YEAR) HALF-YEAR U.S. TRADE FIGURES, POSSIBLY ALSO SOME INTERVENTIONS IN DOLLARS BY SNAKE CURRENCY CENTRAL BANKS AS MOST SNAKE CURRENCIES APPROACHED OR HIT THE LOWER DM INTERVENTION POINT, AND, ACCORDING TO FOREX DEALERS, BASED ON THE ABOVE-MENTIONED DEVELOPMENTS SOME OLD-FASHIONED SPECULATION THAT THE DEUTSCHEMARK IS HEADING FOR A REVALUATION. SPOT AND FORWARD FRANKFURT DOLLAR RATES FOLLOW:

FORWARD DOLLARS						
SPOT DOLLARS			(IN PERCENT PER ANNUM)			
FIXING	OPENING	CLOSING	ONE-MONTH	THREE-MONTH		
JULY 27	2.5757	2.5750	2.5760	-1.0	-1.3	
28	2.5739	2.5750	2.5695	-0.6	-1.2	
29	2.5560	2.5690	2.5535	-1.0	-1.3	
30	2.5430	2.5530	2.5440	-1.5	-1.3	
AUG 2	2.5314	2.5335	2.5450	-1.3	-1.3	
3	2.5352	2.5370	N.A.	N.A.	N.A.	

2. MONEY MARKET: ASIDE FROM A MODEST BOOST IN ONE AND THREE-MONTH FUNDS OCCURRING ON MONDAY, AUGUST 2, GERMAN MONEY MARKET CONDITIONS REMAINED UNCHANGED. SINCE LATE APRIL THE TREND HAS BEEN TOWARDS TIGHTER CONDITIONS. MONEY MARKET RATES DURING THE WEEK DEVELOPED AS FOLLOWS:

CALL MONEY				ONE-MONTH	THREE-MONTH
JULY 27	4.5-4.7	4.45	4.50		
28	4.5-4.6	4.45	4.50		
29	4.5-4.6	4.45	4.50		
30	4.5-4.6	4.45	4.50		
AUG 2	4.5-4.6	4.50	4.60		

3. BUNDESBANK FOREIGN POSITION: IN THE PERIOD JULY 16-23, THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.2 BILLION TO DM 89.7 BILLION. FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 302 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 100 MILLION.

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4. BANK LIQUIDITY: IN THE SAME PERIOD BANK LIQUIDITY DECLINED SUBSTANTIALLY BY DM 7.1 BILLION. THE MAJOR FACTOR REDUCING LIQUIDITY WAS A DM 7.3 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK REFLECTING BOTH RECEIPTS FROM THE MINOR MID-JULY TAX DATE AND, TO SOME EXTENT, CONTINUED BORROWINGS OF THE FEDERAL AND STATE GOVERNMENTS. OTHER FACTORS REDUCING LIQUIDITY

WERE THE ABOVE DM 0.2 BILLION DECLINE IN THE BUNDESBANK'S
NET FOREIGN POSITION, A DM 0.4 BILLION INCREASE IN THE
BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK AND OTHER
FACTORS (DM 1.1 BILLION, NET). A DECLINE OF DM 1.9
BILLION IN CURRENCY IN CIRCULATION INCREASED LIQUIDITY.
THE BANKS FINANCED THE DECLINE IN LIQUIDITY BY SUB-
STANTIALLY INCREASING LOMBARD BORROWINGS (DM 5.6 BILLION)
AND BY INCREASING REDISCOUNT BORROWINGS BY DM 1.5
BILLION. LOMBARD BORROWINGS, AS OF JULY 23, TOTALLED
DM 6.7 BILLION.

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TO SECSTATE WASHDC 0881

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

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5. FEDERAL GOVERNMENT'S CENTRAL BANK ASSETS: FROM JULY 16 TO 23, ASSETS HELD BY THE FEDERAL GOVERNMENT AT THE BUNDESBANK INCREASED BY DM 4.1 BILLION AND TOTALLED DM 7.9 BILLION ON JULY 23. IN THE SAME PERIOD, BUNDESBANK ASSETS OF THE STATE GOVERNMENTS ROSE BY DM 3.4 BILLION TO DM 8.7 BILLION ON JULY 23. THEREFORE, ON JULY 23, ASSETS OF FEDERAL AND STATE GOVERNMENTS TOTALLED DM 16.6 BILLION AS COMPARED WITH DM 7.1 BILLION ON JULY 15.

6. BOND MARKET: CONDITIONS ON THE MARKET FOR DOMESTIC UNCLASSIFIED

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BONDS REMAINED UNCHANGED DURING THE REPORTING PERIOD. ON AUGUST 2, THE FEDERAL RAILWAYS OFFERED A DM 700 MILLION LOAN, THE LARGEST LOAN EVER BY THE FEDERAL RAILWAYS. THE TERMS MATCHED THOSE OF THE LAST FEDERAL LOAN OFFERED ON JULY 12 (COUPON 8 PERCENT, ISSUE PRICE 99.50, MATURITY 5 YEARS NON-CALLABLE, YIELD TO MATURITY 8.13 PERCENT). ACCORDING TO PRESS REPORTS, THE LOAN WAS WELL RECEIVED BY THE MARKET. ON THE MARKET FOR FOREIGN DM LOANS, IN LATE JULY THE INTER-AMERICAN DEVELOPMENT BANK PRIVATELY PLACED BONDS OF DM 50 MILLION (COUPON 8 1/4 PERCENT, MATURITY 7 YEARS) AND IN EARLY AUGUST IBRD BONDS OF DM 150 MILLION (COUPON 8 PERCENT, MATURITY 6 YEARS) WILL BE OFFERED.

7. ECONOMIC INDICATORS PUBLISHED THIS WEEK: THE SEASONALLY ADJUSTED INDEX NUMBER FOR INDUSTRIAL PRODUCTION IN JUNE WAS 112, A ONE POINT CLIMB OVER MAY. NEW ORDER VOLUME ROSE SLIGHTLY OVERALL, DROPPED DOMESTICALLY, AND INCREASED FROM ABROAD. PRODUCTION AND NEW ORDER DATA WILL BE FULLY REPORTED BY SEPARATE CABLE. IN APRIL, THE INDEX OF INDUSTRIAL WAGES PER EMPLOYEE (SEASONALLY ADJUSTED; 1970 EQUALS 100) STOOD AT 177 AS COMPARED WITH 170 ON AVERAGE PER MONTH BASIS IN THE FIRST QUARTER OF 1976. IN JULY, THE STATES OF NORTH-RHINE WESTPHALIA, BADEN-WUERTTEMBERG AND BAYERN RECORDED COST-OF-LIVING INDEX DECLINES OF 0.4 PERCENT AS COMPARED WITH JUNE 1976. FOR NORTH-RHINE WESTPHALIA THE COST-OF-LIVING INDEX HAS INCREASED BY 4.2 PERCENT OVER JULY 1975. SINCE COST-OF-LIVING DEVELOPMENTS IN NORTH-RHINE WESTPHALIA HAVE PREVIOUSLY BEEN REPRESENTATIVE OF THE FEDERAL REPUBLIC AS A WHOLE THE JULY ANNUAL COST-OF-LIVING INCREASE IN THE FRG MAY WELL BE LOWER THAN THE 4.5 PERCENT FIGURE ESTIMATED IN JUNE OF THIS YEAR. PRICES OF IMPORTED GOODS WERE 10.7 PERCENT HIGHER IN JUNE 1976 THAN IN JUNE A YEAR AGO. FOR JUNE ALONE, THE INDEX MEASURING PRICES OF IMPORTED GOODS

ROSE 0.8 PERCENT. UNEMPLOYMENT DATA FOR JULY WILL BE
REPORTED IN SEPARATE TELEGRAM.
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